



GENERAL ASSEMBLY OF THE STATE OF TENNESSEE FISCAL REVIEW COMMITTEE

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MEMORANDUM

TO: Lieutenant Governor John S. Wilder
Speaker Jimmy Naifeh
Members of the Fiscal Review Committee
Each Member of the General Assembly

FROM: Representative Charles Curtiss, Chairman
Senator Don McLeary, Vice-Chairman

DATE: December 27, 2005

SUBJECT: Fiscal Review Committee Quarterly Activities Report for the Quarter Ending September 30, 2005

During the quarter ending September 30, 2005, the Fiscal Review Committee conducted numerous reviews that concentrated on areas that significantly impact the state's budget. In each review, specific information was requested from the responsible entity of state government for the review that culminated in a formal presentation to the Fiscal Review Committee by the appropriate Commissioner, Agency head, or constitutional officer. Listed below are the results of those reviews and various activities of the Committee:

1. Contract review process – The Committee, through the Contract Services Subcommittee, reviews and comments on proposed non-competitive state contracts with a term of more than one year and a cumulative value exceeding \$250,000. During the quarter ending September 30, 2005, there were 20 contracts reviewed for comment from the following departments: F & A – Office Information Resources. (1), Tennessee Department of Environment and Conservation (1), Finance and Administration Bureau of TennCare (3), Labor and Workforce (1), Children Services (2), Personnel (1), Finance and Administration-Insurance Administration (2), Treasury (1), Tennessee Board of Regents – Tennessee Technological University (1), Human Services (1), Health (1), Finance and Administration- Division of Accounts (2),

Secretary of State (2), and The University of Tennessee (1). Seventeen of the recommended contracts were approved with significant concerns due to timeliness in submission of the proposed contracts. In some cases, existing contracts had expired before proposals for extensions were submitted. In other cases, contracts had been entered into before submission to the Committee.

2. The Fiscal Review Committee heard from the following on the date noted below:

On July 20, 2005, The Honorable Jerry Adams, Deputy Commissioner, Department of Finance and Administration updated the committee on state revenue collections. Members received the June revenue report. The committee also discussed the TennCare contract with Omni Care, United American Healthcare Corporation (UAHC).

TennCare Director J.D. Hickey responded to a letter from the committee. He stated that UAHC is still operating as a TennCare contractor. The committee also discussed the ExpressScripts, Inc. contract that had been approved at the prior meeting even though the final draft of the contract was not completed. The committee approved the contract with recommendations for two principal changes dealing with the length of the contract and annual fee costs.

On August 10, 2005, Shilina Chatterjee, Esq., Staff Counsel, reported to the committee on new legislation, Public Chapter 449 of 2005 (Tenn. Code Ann. § 3-7-113), which requires the Fiscal Review Committee to review and discuss any audit of a state department, agency, or institution prepared by the comptroller. Arther Hayes, CPA, Director, Division of State Audit Office of the Comptroller of the Treasury presented information on the audit process. The Committee then reviewed the most recent financial compliance audit from the Department of Environment and Conservation. Mr. Larry Lance, Assistant Commissioner, informed members that the department had instituted corrective actions for all the audit findings and many safeguards were already in place. The committee suggested that the Department appear back before the committee on the actions taken. Lastly, The Honorable John Morgan, Comptroller of the Treasury, reviewed the status of bonds and debt service on the Bear Trace Golf Courses. He explained the public/private partnership establishing the golf course, and stated that the Bear Trace Course was having financial difficulties. He indicated that it was likely that the State may assume operating the Bear Trace Courses prior to the end of the calendar year.

On August 24, 2005, The Honorable Dale Sims, State Treasurer, gave an update on funding of the Tennessee Consolidated Retirement System. Mr. Sims stated the current contribution rate for state employees is 10.54% but will increase to 11.5% based on the most recent actuarial valuation methodology, if approved by the Board of Trustees in December, 2005, and would be effective for two years. Also, Mr. Richard Chapman, Director, Insurance Administration, presented to the committee the future costs for the state's health insurances plans. Mr. Chapman informed members that the State of Tennessee currently sponsors three health insurance plans for different groups of public sector employees. There are about 135,000 employees in these plans covering about 240,000 lives. Beginning January 2006 the Point of Service Plan and the Health Maintenance Organization Plan would be administered by CIGNA instead of Blue Cross Blue Shield. CIGNA outbid Blue Cross Blue Shield for the current plan.

On September 14, 2005 Dr. Robert Ruble, Executive Director of Tennessee Student Assistance

Corporation (TSAC) appeared before the Committee to discuss and explain the repeat audit finding at TSAC. Dr. Ruble indicated that the reason for the discrepancy was the difference in computer records between the banks and the Agency. He stated that TSAC is aggressively working to correct this audit finding.

Mr. Darin Gordon, Chief Financial Officer for the TennCare Bureau in the Department of Finance and Administration, presented to the committee on the new TennCare dental services contract with Doral Dental of Tennessee, LLC.

3. During this quarter 12 audit reports were reviewed, as required by Tenn. Code Ann. § 3-7-113. The following audits were reviewed: Department of Environment and Conservation, Tennessee Student Assistance Corporation, Department of Financial Institution, Tennessee Board of Regents: Cleveland State Community College, Health Services and Development Agency, State Health Insurance Plans and Claims Process Report, Upper Cumberland Community Services Agency, Tennessee Board of Regents: Tennessee Technological University, Memphis and Shelby County Community Agency, Professional Regulatory Boards, Tennessee State Veterans' Home- Murfreesboro and Humboldt, and Tennessee Wildlife Resources Agency Commission.

4. As of September 16, 2005 the cumulative fiscal note was completed as required by Tenn. Code Ann. § 3-2-107. The fiscal impact of each bill as passed by the legislature and signed into law by the Governor. Each public chapter with the corresponding senate and house bill number are listed, followed by a brief summary of the bill and final fiscal impact. In addition, a summary of the total impact on state and local government expenditures and revenues are provided. The cumulative fiscal note has been posted on the Fiscal Review Committee's webpage.

If you need copies or additional information concerning any of these issues, please let us know or contact James W. White, Executive Director, at (615) 741-2564. We appreciate the cooperation provided by the various state entities during the review process.

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